

Before the  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Periodic Reporting  
(Proposal Nine)

Docket No. RM2015-2

INITIAL COMMENTS OF THE PUBLIC REPRESENTATIVE

(December 3, 2014)

I. INTRODUCTION

The Public Representative hereby provides comments pursuant to Commission Order No. 2238.<sup>1</sup> In that Order, the Commission established the above-referenced docket to receive comments from interested persons addressing the Postal Service's proposal to change analytical principles related to periodic reporting.<sup>2</sup> The Postal Service filed the Petition pursuant to 39 C.F.R. § 3050.11. Petition at 1. If the proposed methodological changes are approved, the Postal Service intends to implement them by the end of the FY 2015. *Id.* at 2.

On November 14, 2014, Chairman's Information Request (CHIR) No. 1 was issued,<sup>3</sup> and the Postal Service provided its Responses to CHIR 1 on November 21, 2014.<sup>4</sup> The Commission subsequently issued CHIR No. 2 on November 26, 2014,<sup>5</sup> and in Order No. 2261, the Commission extended the date for filing comments "no later than

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<sup>1</sup> Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Nine), November 4, 2014 (Order No. 2238).

<sup>2</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Nine), October 31, 2014 (Petition). The Petition was accompanied by public and non-public Excel files.

<sup>3</sup> Chairman's Information Request No. 1, November 14, 2014 (CHIR No. 1).

<sup>4</sup> Responses of the United States Postal Service to Questions 1-14 and 17-18 of Chairman's Information Request No. 1, and Status Report on Questions 15-16, November 21, 2014 (Responses to CHIR No. 1).

<sup>5</sup> Chairman's Information Request No. 2, November 26, 2014 (CHIR No. 2)

three business days after the Postal Service files responses to Chairman's Information Request No. 2."<sup>6</sup> The Postal Service filed its Responses to CHIR 2 on November 28, 2014.<sup>7</sup>

## II. SUMMARY OF PROPOSAL NINE

Proposal Nine seeks to refine the split of City Carrier Costs into office and street components, which, if approved, would primarily affect cost segments 6 and 7 of the Cost and Revenue Analysis (CRA) report. The Postal Service currently uses the In-Office Cost System (IOCS) to separate city carrier costs into office costs (cost segment 6) and street costs (cost segment 7). IOCS is a sampling system, and the Postal Service proposes to replace it with the Time and Collection System (TACS) census data. Proposal Nine includes the following major updates to the costing methodology for city carriers:

1. Replaces IOCS with the TACS in the methodology for decomposition of city carrier accrued costs into office costs (cost segment 6) and street costs (cost segment 7). Petition at 1, 2.
2. Uses FORM 3999 (a recent set of City Carrier Street Route Inspections) instead of IOCS to determine the proportion of street costs incurred due to loading or unloading the vehicle. *Id.* at 1, 3.
3. Updates the methodology for attributing/distributing certain costs that are currently part of the Office/Street Burdens, with the assignment depending on whether the carrier is clocked to office or to street. *Id.* at 1.

Proposal Nine also includes some changes to data reporting—the Postal Service states that data will be reported by route groups rather than by route type. *Id.* at 4. In addition to the updates in cost segments 6 and 7, the Postal Service proposes

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<sup>6</sup> Order Addressing Status Report and Extending Date for Filing Comments, November 26, 2014, at 3 (Order No. 2261).

<sup>7</sup> Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 2, November 28, 2014 (Responses to CHIR No. 2).

to update the costing methodology for motor vehicle service in cost segment 12 and for vehicle drive-out and carfare in cost segment 13. *Id.* at 3-4. Such changes require the replacement of the IOCS dataset by the Delivery Operations Information System (DOIS) daily dataset. *Id.*

To illustrate the cost impact of Proposal Nine, the Postal Service presents the proposed impact of Proposal Nine on cost segments 6 and 7, as well the effect on total CRA costs. *Id.* at 6-7. In its Responses to CHIR No. 2, the Postal Service presents the impact of Proposal Nine on cost segments 12 and 13. Responses to CHIR 2, question 1.

### III. COMMENTS

Under the current methodology, to decompose city carrier accrued costs into office costs (cost segment 6) and street costs (cost segment 7), the Postal Service relies on data from IOCS. IOCS is “the primary probability sampling system used to distribute the labor costs of clerks, mail handlers, city carriers, and supervisors to the activities carried out by those employees”.<sup>8</sup> Cost estimates from IOCS are used to develop accrued costs for certain cost segments, including cost segments 6 and 7. The Postal Accounting system provides the total labor costs of city carriers (cost segments 6 and 7 combined), which are then further divided between office and street activities on the basis of the proportion of carrier time spent in each activity. Such proportions of time are determined by IOCS.<sup>9</sup>

The Postal Service states that replacing IOCS with the census data of TACS for the purposes of splitting city carrier costs into office and street costs will: (1) “increase

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<sup>8</sup> Handbook F-45, Data Collection User’s Guide for In-Office Cost System, October 2004, at 1-3; [http://www.prc.gov/Docs/63/63811/F45\\_Handbook.pdf](http://www.prc.gov/Docs/63/63811/F45_Handbook.pdf). See also Docket No. R2006, Direct Testimony of Martin Czigler on Behalf of the United States Postal Service, USPS-T-1.

<sup>9</sup> Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 2013, July 1, 2014 (Summary Description FY13). Cost Segment 6 City Delivery Carriers, Office Activity at 6-1 and Cost Segment 7 City Delivery Carriers, Street Activity at 7-1. See also, Docket No. ACR2013, Library Reference USPS-FY13-37, In-Office Cost System (IOCS) Documentation at 2-3.

the overall precision of the product cost estimates;” and (2) “enable a redesign of the approach used by IOCS for sampling city carriers.” Petition at 4. Although TACS has been fully operational since 2001, the Postal Service has not considered TACS for purposes of splitting city carrier costs into office and street components.<sup>10</sup> In its Responses to CHIR No. 1, the Postal Service identifies two reasons why TACS is currently mature for purposes of the current proposal: (1) “almost all carriers have electronic clock rings in TACS;” and (2) the “percentage of time on the street from TACS is consistent with the percentage of time that carriers are recorded as clocked to the street in IOCS”. Responses to CHIR No. 1, question 1c.

The Public Representative agrees that, generally speaking, replacing sampling data with census data should increase the level of accuracy for cost estimates. After reviewing the materials provided by the Postal Service in the Time and Attendance Handbook F-21<sup>11</sup> and Excel spreadsheets, the Public Representative concludes that the proposed utilization of TACS would be an improvement over the current methodology. The percentages of time on the street recorded in TACS and those clocked to street in IOCS are consistent with the observed difference within 5 percent.<sup>12</sup>

Proposal Nine also changes the methodology for calculating street costs associated with loading and unloading vehicles. Loading a vehicle is currently classified as an in-office support activity and the associated costs are included in cost segment 6, In-Office costs.<sup>13</sup> The Postal Service argues that this practice is inconsistent with the administration of delivery operations, where “loading and unloading vehicles are

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<sup>10</sup> Responses to CHIR No. 1, question 1a. See *also* TACS: Time and Attendance Collection System. Supervisor Training, Facilitator’s Guide, Course 31267-01, February 23, 2001, at [http://www.branch38nalc.com/sitebuildercontent/sitebuilderfiles/TAC\\_TRAINING\\_GUIDE.pdf](http://www.branch38nalc.com/sitebuildercontent/sitebuilderfiles/TAC_TRAINING_GUIDE.pdf).

<sup>11</sup> See Library Reference USPS-RM2015-2/2, November 21, 2014 file “Chir1.Q10.F21.pdf”.

<sup>12</sup> Calculated using data provided from Library Reference USPS-RM2015-2/1, October 31, 2014 file “I\_Forms\_TACS”, worksheet ‘TACS Ofc\_Str’.

<sup>13</sup> See Summary Description at 6-2 and Docket No. ACR2013, December 27, 2013, Library Reference USPS-FY13-32 (Revised 02.06.2014), “B” Workpapers, file “CS06&7.Revised.xls”, worksheet ‘Outputs to CRA’.

considered to be street functions”, and “[c]arriers are trained to be ‘clocked to street’ whenever they are loading or unloading mail from their vehicle”. Petition at 2.

The Public Representative agrees that some other datasets contain loading/unloading of a vehicle among street activities. For example, Form 3999, which collects data on the times the carrier spends in the various street activities on the route, contains vehicle load/unload among its definitions.<sup>14</sup> As stated in the recent OIG Audit Report, “[s]treet delivery (or street time) is comprised of every duty a carrier performs from the time he or she loads the vehicle, delivers, and collects mail along the route and return to delivery unit to unload the vehicle”.<sup>15</sup> The longer carriers spend loading their delivery vehicle, the longer the street time. *Id.* at 2.

Accordingly, Proposal Nine includes a few methodological changes related to loading/unloading the vehicles. First, to determine the proportion of street time incurred due to loading or unloading the vehicle, Proposal Nine replaces IOCS data with Form 3999 data. The obtained proportion is multiplied by TACS-based street costs to determine street costs associated with these activities. Second, these costs (related to load/unload activity and associated with the time when the carrier is clocked to street), will be transferred from cost segment 6 to cost segment 7. Response to CHIR No. 1, question 5b; Petition at 1-3.

The Postal Service has previously analyzed the potential advantages of using Form 3999 data for forming cost pools. As noted in the Scoping Study Report, the Form 3999 data could be used to estimate the time proportions for the various street activities. Thus, vehicle load and unload are listed among Form 3999 definitions, although, as noted in the Scoping Study Report, still considered office time in CRA.<sup>16</sup>

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<sup>14</sup> Docket No. RM2011-3, Scoping Study Report of the United States Postal Service, May 25, 2012, at 8 and 34 (Scoping Study Report).

<sup>15</sup> City Delivery – Street Efficiency Capital District, Audit Report, Office of Inspector General United States Postal Service, Report No. DR-AR-12-003, August 16, 2012, at 1-2 (OIG Audit Report).

<sup>16</sup> *Id.* at 34. Per the definition provided by the Postal Service, “Form 3999 is a cross-sectional database in which the unit of observation is the route. Each observation contains the activity times and volumes delivered on the route during its route evaluation. The Form 3999 thus provides a profile of the daily activity for each city carrier route in the country.” *Id.* at 9.

The Public Representative supports the proposed use of Form 3999 data to estimate the proportion of loading/unloading time. The underlying methodology for estimation of street costs associated with loading/unloading the vehicle also appears to be reasonable. However, the Public Representative remains concerned about the overall accuracy of calculations and consistency of different datasets in terms of the split of load/unload activity into “clocked to street” and “clocked to office.”

In its Responses to CHIR No. 1, question 5b, the Postal Service indicates that some load/unload costs, which are currently part of cost segment 6 (6.2, In-Office Support), will be included in cost segment 7. As shown in the tables provided with that response, such updates are applicable to load/unload activity associated with the assignments when the carrier is clocked to street. As presented in the Postal Service filings, the proposed change impacts multiple worksheets of the cost segments 6 and 7. For example, worksheet 6.0.3 of the C/S 6 and 7 City Carriers excel file with Proposal Nine incorporated shows costs related to “Loading Vehicles” on a separate line. These costs are now incorporated into the total C/S7 Street Costs and not presented in 6.2 sub-sections as they were in the corresponding worksheet for Docket No. ACR2013.<sup>17</sup>

The changes appear consistent with the proposed reallocation of costs related to loading/unloading from cost segment 6 to cost segment 7. However, Proposal Nine, as presented, does not provide any clear description of the underlying methodology for the proposed changes. The Public Representative attempted to assemble the methodology using the information provided in the Petition (*i.e.* components 2 and 3 of Proposal Nine), Responses to CHIR No. 1, questions 5-6, 8-9, 12-14, and 17-18, and by comparing library references filed in the current docket with USPS-FY13-32 filed in Docket No. ACR2013. As shown in the Table provided with Responses to CHIR No. 1, question 5b, load/unload activity will be kept in cost segment 6 when the carrier is clocked to office, and will not be treated as actual load/unload activity under the new

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<sup>17</sup> See Docket No. ACR2013, Library Reference USPS-FY13-32, file “CS06&7.Revised.xls” and filed in the current docket Library References USPS-RM2015-2/1, file ‘CS06&7\_TACS’ and USPS-RM2015, file ‘Chir1.Q3b’.

definition. This would require the re-categorization of “IOCS tallies according to the new costpools. IOCS tallies where the carrier is clocked to the street would be assigned zero cost.” Responses to CHIR No. 1, question 12. However, the Postal Service still considers the mentioned above re-categorization of IOCS tallies as a possible “way that Proposal Nine could be implemented.” *Id.*

The Public Representative suggests that the Postal Service provide a clear and detailed description of the methodology for the split within load/unload activity as well as the further attribution and distribution of costs currently classified as load/unload activity in In-Office Support, cost segment 6. This will increase the transparency of the proposed changes and allow the Commission to ensure the accuracy of the proposed modifications.

Proposal Nine also includes the replacement of IOCS proxy data with DOIS census data for calculating the office/street percentage split of workhours used in cost segments 12 and 13. Petition at 3-4; Responses to CHIR No. 2, question 2. The distribution of workhours between in-office and street activities is currently calculated inside C/S 6 and 7 spreadsheets based on IOCS data.<sup>18</sup> Components 5 and 6 of Proposal Nine indicate that such office/street percentage split will be obtained from DOIS, and then used to calculate component costs for motor routes (motor vehicle service, cost segment 12) and foot routes (carfare and drive-out in cost segment 13).<sup>19</sup>

As the Postal Service states in the Scoping Study Report, part of the DOIS dataset is “daily recording of street times, office times, and delivered volumes for virtually all city carrier letter routes in the country”. Scoping Study Report at 17. Daily recorded office and street hours are taken from TACS. *Id.* The Postal Service has already evaluated DOIS for its usefulness on cost estimation, and found its daily data “reasonably accurate and consistent.” *Id.* at 27. The Public Representative agrees that

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<sup>18</sup> Street activities include [load] delivery activities and [route] network travel. See Responses to CHIR No. 1, Library Reference USPS-RM2015-2/2, file “LRChir1.Q3b.xls”, worksheet ‘Outputs to CS’; Responses to CHIR No. 2, files “Chlr2.CS12\_TACS” and “Chlr2.CS13\_TACS”.

<sup>19</sup> *Id.*; Summary Description FY13, Cost Segment 12 Motor Vehicle Service and Cost Segment 13 Miscellaneous Local Operations.

the replacement of IOCS with DOIS to determine the percentage of office/street spit for motor and foot routes (as it is included in Proposal Nine) should improve the costing methodology in cost segments 12 and 13.

As set forth in the Petition and subsequent Responses to CHIRs, Proposal Nine contains seven components. Although the analysis presented by the Postal Service discusses most of them, several components are still not fully fleshed out. For example, Proposal Nine includes the expansion of IOCS (component four). The Postal Service admits that actual implementation of Proposal Nine would require re-running not only the overall CRA Model, but also a separate delivery model. It would also be required to modify the IOCS tallies and multiple SAS programs. Responses to CHIR No. 1, at 1-2; questions 11-12. The Postal Service intends to accomplish such tasks “in the extended lead time prior to implementation of any approved change at the end of FY15.” *Id.*

39 C.F.R. § 3050.11 provides that if the petition “proposes that a specific alternative analytical principle be followed” the Postal Service “should...where feasible, include an estimate of the impact of the proposed change on the relevant characteristics of affected postal products, including their attributable cost, avoided cost, average revenue, or service attainment.” Based on the documentation provided with the Petition and Responses to CHIR Nos. 1 and 2, the Public Representative concludes that the Petition, in general, satisfies the requirements of 39 C.F.R. § 3050.11. However, the Public Representative suggests that before practical implementation of Proposal Nine in FY 2015, the Postal Service provide the Commission with the additional documentation that becomes available after making necessary modifications.

#### IV. CONCLUSION

The Public Representative recommends Proposal Nine for approval. However, the Public Representative recommends the Postal Service first clarify the methodology for allocating and distributing load/unload costs and, second, provide all relevant documentation illustrating the results of the methodological updates required by



Proposal Nine. This will allow the Commission to adequately ensure that the Petition meets all statutory and regulatory requirements.

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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